

Testimony to the U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management
Wall, South Dakota
July 31, 2006
By
Scott VanderWal
President, South Dakota Farm Bureau

I would like to start by thanking you for the opportunity to visit with you today about farm policy. My name is Scott VanderWal, and I am an agricultural producer from Volga, SD. We have a family owned and operated corn, soybean and cattle feeding business. I am responsible for the crop production and management, as well as the overall financial management of the entire operation. I also serve as president of the South Dakota Farm Bureau, which is the largest voluntary producer-driven general farm organization in the state. My wife, Michelle and I have 2 sons who intend to make their careers in agriculture.

Farm policy over the years has evolved from supply management to a more market oriented program with incentives for producers to react to market conditions and economic forces. We have supported that and strongly believe it should continue.

I will quickly discuss the current farm program and its effects on agriculture, and then I will go into how we think future agriculture policy should look.

2002 Farm Bill

Our members feel that the current 2002 farm bill has overall been good for American agriculture. The current structure, with direct payments, counter cyclical and loan

deficiency payments to counteract poor market conditions, and the federal crop insurance program can all be used together by producers to create a fairly good risk management program. As a whole, our members like it. A possible drawback of the program is that it has encouraged inflation of land values, and that makes it more difficult for beginning farmers to get started. Another aspect of current policy that has both a positive and negative side is the Conservation Reserve Program (CRP). It has been excellent for wildlife and habitat and has taken marginal land that probably should not be farmed out of production. However, it has had a detrimental economic effect on small towns and businesses in our state.

I would suggest that overall, the CRP has been good, but as we go forward, we need to make sure that only land that is truly fragile and highly erodible should be enrolled, and ensure that the program is really used as it was intended.

Saying all that, we understand that there will be considerable pressure from several different directions to make changes in the farm program. The pressure to become more WTO compliant, budgetary issues that we did not have five years ago, and good old politics will all have significant effects on the process.

2007 Farm Bill

So, where do we go from here? As I mentioned, our members like the structure and concepts of the current farm bill. However, we recognize that there will most likely be at least some changes, and we will be very involved in the process of developing the next program. American agriculture is changing with lightning speed. Farms are getting larger and fewer as family operations grow and acquire the assets of neighbors who may want to retire or sell out. It is a function of economics just like every other industry encounters. Therefore, our needs are also changing. Risk management has become one of the most common and important concerns to modern agriculture producers. Compared to 20-40 years ago, the stakes are tremendously higher. Our industry has also gone from one that produces food and fiber, to one that produces food, fiber, and energy. I would

like to discuss some of what we think are the major issues that need to be dealt with in the new farm program.

We also hear concerns from young ag producers who are trying to get started in an area where large amounts of acreage are enrolled in CRP.

Energy

The American agriculture industry is under tremendous pressure economically due to energy costs. The lack of a solid energy policy in this country has made us very vulnerable to foreign influences and events around the world. In terms of importance to a country's freedom and sovereignty, energy independence ranks right up there with food independence. The cost of fuel and fertilizer products for our operation have doubled and for some products even tripled over the last 2-3 years. The answer to the problem is right here in our own country. We are developing renewable fuels such as ethanol and bio-diesel very quickly. Federal funding for research, development and education is of utmost importance as we strive to look for ways to convert our renewable energy into fertilizer products and other energy forms. We also need to continue exploration and development of our other domestic resources such as oil and gas, wind, hydrogen and numerous other possibilities. There is no one silver bullet, but all of these aspects are pieces of the larger puzzle, and if we put them all together, we can greatly lessen our dependence on foreign energy.

Commodity Programs

We strongly believe that current planting flexibility provisions should be maintained. World Trade Organization rules also state that subsidies should not be directly linked to production, so as not to distort markets. Some have suggested that we should return to mandatory set-asides. We vigorously oppose that concept. You cannot idle your way to prosperity. We already have various programs that take marginal land out of production,

so there is no need to require that in the farm bill. In addition to that, in our current world market economy, if we were to announce an acreage set-aside, it would simply be a signal to other competing countries to increase their acreage, and as we have seen in the past, they don't hesitate to do it.

Technology, Research and Development

Another area that deserves a sharp focus on enhanced funding for research and development is modern agricultural technology. We have access to global positioning systems and automatic satellite-based steering on equipment that allow us to engage in site-specific farming. This enables us to zero in on exact placement and rates of fertilizer and other crop inputs. Genetic technology is also very exciting. Products being developed right now include drought tolerant corn and corn that fixes its own nitrogen. Support for research and development will enable American farmers and ranchers to continue to meet the food, fiber and fuel needs of a growing population while at the same time taking even better care of the land and other resources.

Disaster Programs and Risk Management

Let us now focus for a moment on federal disaster programs. When the 2002 farm bill was enacted, the message was that this is now a safety net, and there will be no more disaster programs. But then later on when a disaster of some type strikes, the political pressure again rises to appropriate funds to help. And the case can be made that it was still necessary. Take for instance the cattle industry in South Dakota. Some areas have had multi-year droughts, and there is no safety net or LDP on grass, rangeland, or cattle prices. I believe that we have an opportunity to take a look at our risk management program from the big-picture perspective in the next farm bill. Rather than combining disaster programs with crop insurance, we could use the funds that would have been used for disaster assistance to create a whole farm revenue insurance product. That would combine federal subsidization to make it affordable, but still add personal responsibility to the mix, where individuals can make their own decisions on what level of risk

protection to purchase or whether to purchase it at all. There are some private companies within the crop insurance industry that are looking at this possibility. This concept would also help alleviate the criticism of disaster programs and the way they are handled.

Environment and Wildlife

I would be remiss if I did not mention the environmental and wildlife aspects of farm legislation. Farmers are the first environmentalists. We depend on the land and water for our means of making a living. It only makes sense that we would care for our natural resources to the best of our ability and leave them better than we found them. We need to work with conservation and wildlife groups to find ways to provide compensation for agriculture's positive impact on the environment, wildlife and habitat. The carrot approach always works better than the stick, and this would provide incentives for people to do a better job and reward those who are already doing it. I would have a word of caution about transferring funding from commodity programs to conservation programs. The Conservation Security Program (CSP) is intended to do essentially what I just described. However, it was only available to producers on a very limited basis in the last two years, and the red tape and attached strings made it even more difficult for a producer to benefit. So if we take funding away from a program that is available to a lot of producers in the major commodities, and put it in a program that is available to relatively few, we have a fairness problem.

Livestock

The Environmental Quality Incentive Program has been a positive thing for livestock operations and for the environment. We favor continuing and enhancing that program. I would also like to address a couple of other livestock issues that have arisen in earlier discussions. Country of Origin Labeling (COOL) was part of the 2002 program but never received funding. We do not favor mandatory COOL because of concerns about cost, liability and cost/benefit issues. We do believe that voluntary COOL has merit and can be a great marketing tool for businesses that want to use it. The other issue is packer

ownership of livestock. We believe that the Packers and Stockyards Act should be strictly enforced. Anti-trust laws should be used to ensure that captive supplies are not used to manipulate the market. However, we stop short of banning packers from owning or controlling livestock. When packer entities are bidding on feeder cattle, it increases the competition for those cattle, presumably leading to higher prices. There are also many different contracting arrangements out there that cattle owners use to their advantage in their risk management programs. If the government were to take these tools away, it would be a disservice to the cattle industry. And the big picture issue for us is that in our free-enterprise based, market-oriented system, the government should not be deciding who can own or control property or other assets.

Taxation

Another issue that is not actually part of farm policy, but has a huge impact on American agriculture is the current tax system in our country. The current system embeds all sorts of taxes such as sales and payroll taxes into the prices of all goods and services. Capital gains and estate taxes are deterrents to successful passage of family farms to the next generation. We favor replacing the current tax code with a system that encourages success, savings, investment and entrepreneurship. It should eliminate all payroll taxes, self-employment taxes, the alternative minimum tax, capital gains, estate taxes, and personal and corporate income taxes. A perfect example of this concept is the FAIR tax, as has already been proposed in Congress.

International Trade

The issue that has an ever increasing influence on our industry is international trade. Ninety-six percent of the world's population lives outside of our borders, so the potential markets are huge for us. There are many countries such as China that are currently expanding their economic middle class, and when people have more money in their pockets to spend, one of the first things they do is improve their diets. The demand for our products will continue to expand, as countries such as China cannot possibly produce

enough food for themselves over the long term. We believe that our involvement in the World Trade Organization (WTO) is a positive for American agriculture, and that our farm policy should be compliant with WTO rules. Our organization believes we should accept a reduction in amber box (trade distorting) subsidies, but only if we are allowed greater access to foreign markets through lowering of tariffs and other trade barriers.

In summary, our members favor a program that looks much like the current one, with reduced complexity, and the flexibility that allows farmers to respond to market demand. We should maintain and enhance a safety net which compensates for poor market conditions and provides useful risk management tools for producers. We need a solid energy title in the farm bill which provides incentives to produce renewable energy sources that complement our country's other renewable and fossil fuel supplies. We must reduce our reliance on foreign energy sources, as energy independence is as vital as food independence.

American farmers are very innovative. We will survive and thrive if the federal government does certain things. Among those things are assisting with risk management tools, reducing roadblocks to success, and enhancing international trade. The health and welfare of American agriculture is a national security issue and is of paramount importance to the freedom we enjoy and so often take for granted.

I consider it an honor to have been asked to testify today, and appreciate your time and attention to the issues that so greatly affect our industry and our country.

**Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form**

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Scott VanderWal
Address: 730 N Samara Ave, Volga, SD 57071
Telephone: 605 627 5479

Organization you represent (if any): _____
South Dakota Farm Bureau Federation

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ **Amount:** _____

Source: _____ **Amount:** _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: North Central Risk Mgmt Ed Ctr **Amount:** \$ 13,200

Source: _____ **Amount:** _____

Please check here if this form is NOT applicable to you: _____

Signature: Scott VanderWal

** Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

**Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses**

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Scott VanderWal

2. Business Address: 2225 Dakota Ave S

Huron, SD 57350

3. Business Phone Number: 605 353 8050

4. Organization you represent: South Dakota Farm Bureau Fed.

5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:

I grew up on our family corn, soybean and cattle feeding
operation, and joined in the operation in 1985 after
graduating from S.D. State University.

6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:

I have been farming full time on that operation since 1985,
and I am in charge of the crop management and much of the
labor, as well as overall financial management for the entire
operation. I have a BS degree in General Agriculture from SD
State University, and have attended numerous financial and
crop management seminars in the 20 years since graduating.

7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

South Dakota Farm Bureau President

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.